

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

CLASSIFICATION AND FEES FOR WEIGHT-AVERAGED
NONLETTER-SIZE BUSINESS REPLY MAIL, 1999

Docket No. MC99-2

**RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS ELLARD TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T2-1 - T2-11)**

The United States Postal Service hereby files the responses of witness Ellard to the following interrogatories of the Office of the Consumer Advocate, which were filed on April 22, 1999: OCA/USPS-T2-1 through T2-11.


Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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April 29, 1999
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RESPONSE OF U.S. POSTAL SERVICE WITNESS ELLARD TO
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OCA/USPS-T2-1. Your testimony generally discusses the process for determining "prospects" who might be in a position to take advantage of the proposed fees and you state at page 8 of your testimony that the results of the study determined ten respondents "representing 11 sites and a total of 15.8 million pieces of mail annually said they expected to take advantage of the proposed fees." Among the five industries represented by the respondents are the film processing industry.

- a. Please indicate whether any of the four film processors taking part in the experiment in Docket No. MC99-1 are among the respondents referenced in your testimony? If so, which of those film processors are included?
- b. If your answer to the first part of a, above, is yes:
 1. Please indicate whether, in calculating the 15.8 million pieces of mail annually, you used the same annual volumes utilized by witness Schenk in her workpapers for three of the film processors?
 2. If you did not use the same annual volumes as witness Schenk, please compare your annual volumes with her annual volumes, and indicate whether the annual volume of mail which you assume for those film processors is higher or lower and provide the total percentage difference between your estimates and witness Schenk's estimates.
 3. If you did not use the same annual volumes as witness Schenk, please indicate the source or sources of your estimate for the film processors.

RESPONSE:

(a) All of the four film processors taking part in the experiment in Docket No. M99-1 are among the respondents referenced in my testimony. I would note that two of those processors merged during the experiment, so at present there are three firms with four locations.

(b) (1) The volumes I reported were developed independently of witness Schenk and were based on responses given by customers during my market research study. This approach is in keeping with the objective of conducting an independent study in which all possible users were approached in the same manner, regardless of their familiarity with the experiment.

(b) (2) In my testimony, I stated that we have assured our respondents that volume data will be held in strict confidence because of its commercial value. I also stated that the small number of prospects leads to a situation where even simple cross tabulations would lead to disclosure (USPS-T-2, page 3 at lines 3-

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RESPONSE to OCA/USPS-T2-1 (continued)

9). To be both responsive to the question and faithful to our assurance of confidentiality to respondents, I developed the following approximate comparison.

In his response to OCA/USPS-T1-6, witness Kiefer develops an estimate of 621,000 pieces per month for the three sites included in witness Schenk's analysis. (As witness Kiefer noted in his response, the fourth site switched to weight averaging just as field data collection was being completed, and its volume was not used in developing witness Schenk's cost estimates.)

For these three sites, the combined confidential volume that I obtained in my study is approximately 1 percent less than the figure witness Kiefer developed from witness Schenk's analysis.

(b) (3) My estimate for the film processors came from interviews conducted with the film processors, using the approach outlined in my testimony.

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OCA/USPS-T2-2. Are any of the eleven sites represented by the ten respondents the same sites currently utilized for processing weight-averaged nonletter-size business reply mail?

RESPONSE: Yes.

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OCA/USPS-T2-3. Do any respondents, other than one film processor currently using two sites, expect to utilize more than one site for processing weight-averaged mail?

RESPONSE: No.

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OCA/USPS-T2-4. Please indicate how many of the ten respondents are represented in each of the five industries which you list on page 8 of your testimony.

RESPONSE: The counts are:

Film Processors	3
Insurance	1
Market Research	1
Retail	1
State Disability Agencies	4

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OCA/USPS-T2-5. Please refer to page 8 of your testimony and provide the explanations given by each of the eleven of twenty-one respondents who completed the process as to why they do not expect to take advantage of the proposed fees.

RESPONSE: Nine of the eleven respondents who completed the process found that they did not have the volume of eligible mail necessary to save money under the fees as presented. Two respondents simply said, and repeated, that they would not be interested.

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OCA/USPS-T2-6. In your opinion, based upon your experience, how many of the eleven of the twenty-one respondents, who completed the process and who indicated they do not expect to take advantage of the proposed fees, will decide to use the proposed fees in approximately the next two years?

RESPONSE: I have no experience that would bear directly on this question. Possibly some uninterested firms with large enough eligible volume will think again about taking advantage of an existing fee rather than a proposed fee. My working definition of "large enough eligible volume" is subjective. The volume must be sufficient to offer a savings that seems worth the effort to the parties involved.

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OCA/USPS-T2-7. In your opinion, based upon your experience, how many of the ten of the twenty-one respondents, who completed the process and who indicated they expect to take advantage of the proposed fees, will decide not to use the proposed fees in approximately the next two years?

RESPONSE: I have no experience that would bear directly on this question. It is possible that any respondents who may have over-estimated their eligible volume might drop out, though I have no evidence that any have over-estimated volume. In order to reduce this source of potential error, we did make it a point to gently question estimates that did not seem realistic in light of information available to us, as discussed at pages 3-5 of my testimony (Docket No. MC99-2, USPS-T-2).

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OCA/USPS-T2-8. How many of the ten respondents who indicated they expected to use the proposed fees have annual volumes:

- a. Above 75,000 qualifying pieces?
- b. Above 100,000 qualifying pieces?
- c. Above 150,000 qualifying pieces?

RESPONSE: The counts are:

Above 75,000 qualifying pieces	10
Above 100,000 qualifying pieces	10
Above 150,000 qualifying pieces	10

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OCA/USPS-T2-9. The proposed fee structure and the worksheets included with your testimony as USPS-2C, pages 2, and on the worksheet on page 6, indicate a lowest proposed monthly fee of \$1000 (with a one-half cent per piece charge) although a \$600 monthly fee is proposed in this docket by the Postal Service. Would the lower monthly fee now being proposed have any impact on your study results? If so, what do you believe the impact would be?

RESPONSE: The lower monthly fee could theoretically have some impact on the estimated number of firms that would take advantage of the fee because it would lower the number of eligible pieces that would be required to save money with the fee. This would be likely to have a greater impact on the number of firms using the fees than on the number of pieces of mail involved. For example, one additional firm would be an increase of ten per cent in the number taking advantage of the fee. If that additional firm generated 150,000 eligible pieces, that would be less than a one per cent increase in pieces affected by the fee.

Generally, we saw that firms that would benefit most from the fees were most enthusiastic about moving to those fees. A small potential saving will not necessarily bring on board a large number of new customers.

We have no specific information indicating how many, if any, additional customers might decide to avail themselves of weight averaging due to the lower monthly fee. However, I am aware that witness Kiefer testifies in this docket (USPS-T-4 at pages 21 and 22) that any reasonable number of additional customers will pose no financial problems. His Exhibit USPS-4A shows that an increase in the number of weight averaging sites from 11 to 20, coupled with an increase in weight-averaged nonletter-sized BRM from 15.8 million pieces to 20 million pieces would *increase* net savings (change in revenues minus change in costs) to the Postal Service. He testifies that "...the fees proposed are robust over a wide range of customers and mail volumes" (USPS-T-4, at 21, footnote 9).

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OCA/USPS-T2-10. Have the ten respondents who stated they expect to take advantage of proposed fees indicated their current plans in view of the rates proposed in this docket? If so, what are they?

RESPONSE: No.

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OCA/USPS-T2-11. What are the most recent dates on which each of the ten respondents said they expect to take advantage of the proposed fees?

RESPONSE: The dates are:

December 4, 1998
December 9, 1998
December 15, 1998
January 4, 1999
January 11, 1999
January 14, 1999 (2)
February 8, 1999 (2)
February 15, 1999

DECLARATION

I hereby declare under penalty of perjury that the foregoing responses to interrogatories are true to the best of my knowledge, information, and belief.



Timothy D. Ellard

Date: 4-29-99

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing is being mailed today to all parties of record in accordance with Rule 12 of the Commission's Rules of Practice and Procedure.


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